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Foreword

This maiden *Sustainability Report* highlights the progress that the Bangko Sentral ng Pilipinas (BSP) has made in championing the sustainability agenda in the Philippine financial system, consistent with our mandates of maintaining price and financial stability and in line with the climate commitments and sustainable development aspirations of the National Government (NG).

Dr. Martin Luther King, Jr. said "Injustice anywhere is a threat to justice everywhere. We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly." Dr. King's words, while rooted in his campaign for civil rights and racial equality, resonate today to the global effort of securing a climate-resilient, livable, and sustainable future.

Cultivating resilience and sustainable financing to addressing climate change

The climate crisis is a global threat with irreversible consequences to the environment and society. If no immediate action is taken to significantly reduce greenhouse gas (GHG) emissions, global warming will continue to intensify and compromise public health, food security, and water security, as well as social and economic development at large.\(^1\) The actions of all actors are thus critical in deciding our future and that of the next generation.

The BSP continues to make headway in integrating sustainability objectives in its financial regulation and supervision and other key functions and support operations. This is encapsulated in the Sustainable Central Banking (SCB) Program which forms part of the 2020-2023 BSP Strategy.

To bridge financing gaps, the BSP is promoting an environment that enables financial institutions to fulfill their critical role of mobilizing funds toward the transition to a low-carbon, climate-resilient, and sustainable economy. The BSP has issued sustainability-related guidelines to strengthen banks' responses to managing environmental and social risks and, in turn, unlock financing for 'green' or sustainable projects. Aside from existing regulations, the BSP is also reviewing the credit exposure limits of a single borrower to further incentivize banks to lend to such projects.

¹ IPCC Climate Change 2023 Synthesis Report, https://www.ipcc.ch/report/ar6/syr

Way forward

Building on the gains of the BSP's earlier sustainability efforts, specific targets and metrics will be established to measure and reduce our organizational carbon and environmental footprint across key operations.

To further strengthen the management of climate-related risks and contribute to accelerating the country's climate action, the BSP will strive toward completion of the climate stress-testing exercise and related guidelines, development of the local taxonomy, and enhancements to prudential reports and sustainability-related disclosures, among others.

As part of whole-of-society efforts, the BSP will ensure the promotion of an enabling environment for sustainable finance by forging closer ties and collaboration with key stakeholder groups in the public and private sectors. This will support achievement of the sustainability objectives, including the promotion of inclusive green finance.

BSP Governor Felipe M. Medalla



I. Overview

Climate change is а potentially catastrophic global externality and one of the world's greatest problems, as noted in the 2008 World Economic Outlook of the International Monetary Fund (IMF).2 Indeed, the climate is changing in unprecedented ways, with extreme weather events becoming more frequent and intense. The impacts of climate change put lives and livelihoods at risk and pose significant threats to financial and economic stability.

According to the 2023 Global Risks Report, which presents the results of the latest Global Risks Perception Survey (GRPS),³ climate- and nature-related risks, including the failure to mitigate climate change, is ranked as one of the most severe perceived threats to economies and societies over the next two years. In the next decade, these risks will essentially remain as the core focus of corporate strategies and decision-making—to systematically manage and disclose such risks and avoid serious consequences to business operations and to the broader economy.

The Intergovernmental Panel on Climate Change (IPCC) has warned that without immediate and deep reductions in global GHG emissions across all sectors, it would be impossible to limit global warming below 1.5°C.⁴ This calls for swift, radical, and well-coordinated climate action and stronger partnerships between and among actors—the public and private sectors, households, enterprises,

authorities, and governments—that must be driven at multiple levels, including within local communities, and at country, regional, and international levels. Global leaders have recognized the urgency of tackling climate change and its devastating impacts.

Finance has been identified as one of the critical enablers for accelerated climate action. The realization of climate goals thus necessitates that financing of climate adaptation and mitigation measures substantially increases across all sectors and regions. While there is sufficient global capital and liquidity to close the investment gaps, existing barriers to redirect capital to climate action need to be reduced. The financial sector plays a significant role addressing climate change by mobilizing private-sector financing for adaptation and mitigation activities. This highlights an even more fundamental governments and role for instrumentalities, central banks and supervisors, and other regulators in providing clear policy signals and in supporting the reduction of barriers for scaling up public- and private-sector climate investments.

Climate change in the Philippines

The Philippines consistently ranks as one of the most vulnerable countries to

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International Monetary Fund. (2008, April 3). Housing and the Business Cycle, Chapter 4: Climate Change and the Global Economy (p.133). https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/Housing-and-the-Business-Cycle

The Global Risks Perception Survey is the World Economic Forum's source of original risks data, harnessing the expertise of the Forum's extensive network of academic, business, government, civil society, and thought leaders. More than 1,200 academic experts, business people, the international community, and civil society from 121 countries were consulted on "global risk."

International Panel on Climate Change. (2022, April 4). The evidence is clear: the time for action is now. We can halve emissions by 2030 [press release]. https://www.ipcc.ch/site/assets/uploads/2022/04/IPCC_AR6_WGIII_PressRelease_English.pdf

climate shocks, despite the country making a minimal contribution of only 0.39 percent of the world's total GHG emissions.5 According to the World Bank's 2022 Country Climate Development Report, climate action in the Philippines must address both largescale natural disasters and slow-onset events. Over the past decade, the country, due to its geographical location, has been struck by the most destructive typhoons. The increasing intensity of these typhoons, with potentially more frequent and severe floods, will likely remain as the biggest source of economic costs. As climate change progresses, slow-onset events (e.g., increasing temperatures, biodiversity loss, or sea-level rise) would contribute to rising costs, particularly due to negative impacts on agricultural yields and labor productivity.

Annual losses from severe calamities were estimated at 1.2 percent of the country's gross domestic product (GDP) and as much as 4.6 percent of GDP in the case of Super typhoon Haiyan (locally known as Typhoon Yolanda) in 2013.6 In the absence of effective and welldesigned climate policy action, the underserved and unserved groups are likely to be disproportionately affected by climate change impacts. Model simulations that show potential economic damages could reach up to 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040.7

To further strengthen the Philippine Government's commitment to deliver on key climate actions, the objective to "accelerate climate action and strengthen disaster resilience" was included as a priority agenda under the Philippine Development Plan (PDP)

2023-2028. Toward this end, the following strategies were identified: (A) increasing climate and disaster risk resilience; (B) enhancing ecosystem resilience; and (C) enabling transition to a low-carbon economy. Climate-related actions were also integrated in relevant sections of the underscoring PDP2023-2028, climate change is an overarching governance issue with far-reaching implications across all sectors.

Bangko Sentral climate action

The efforts of the BSP to promote the sustainability agenda in the financial system are shaped by the different roles it plays: as an organization, a monetary authority and financial sector supervisor, and a government body.

The BSP adopted the broad concept of sustainability to guide its efforts. Sustainability covers not only climate change but also other environmental issues and encompasses social and governance aspects. Governance is a cornerstone of the BSP's supervisory framework while socioeconomics is one of the factors that underpin the BSP's financial inclusion advocacy.

The Basel Committee on Banking Supervision (BCBS) highlighted that Sustainability Reporting is fundamental as it helps promote transparency. The Network for Greening the Financial System (NGFS) likewise underscored that "it is important for central banks to seek to lead by example and demonstrate accountability by disclosing climate-related risks and, where relevant,

⁹ Bank for International Settlements. (2021, November 3). Basel Committee supports the establishment of the International Sustainability Standards Board [press release]. https://www.bis.org/press/p211103.htm



⁵ Ritchie, H., Roser, M., & Rosado, P. (2020). Philippines: CO2 Country Profile. Published online at OurWorldInData.org. Retrieved from https://ourworldindata.org/co2/country/philippines#what-are-the-country-s-annual-co2-emissions

⁶ World Bank Group. (2022.) Philippines Country Climate and Development Report. CCDR Series. © World Bank, Washington, DC. https://openknowledge.worldbank.org/entities/publication/3f76eedd-4ab6-5250-ab4e-75f39593f1b3 (License: CC BY-NC-ND)

⁷ Ibid.

⁸ Philippine Development Plan 2023-2028. Accessed at https://pdp.neda.gov.ph/wp-content/uploads/2023/01/PDP-2023-2028.pdf

opportunities in a progressively wider scope and increasing detail." ¹⁰ Indeed, sustainability reporting can also play a vital role in a central bank's communication.¹¹

The 2022 Sustainability Report of the BSP intends to inform the public of the strategic approach taken by the Bank to integrate environmental, social, governance (ESG) or sustainabilityrelated considerations across different areas of its operations. This Report is a fulfillment of one of the commitments of the BSP under the 11point SCB Strategy, which is to include climate-related financial disclosures in the Annual Report. The SCB Technical Working Group (SCB-TWG), through the coordinated and collaborative efforts of its members, led the development and finalization of this issuance.

This *Report* also aligns the BSP's reporting of its sustainability efforts and initiatives to the extent feasible with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). It considers the core pillars under the TCFD framework: governance, strategy, and risk

management. The pillar on metrics and targets is an area for further refinement. Going forward, the BSP will be including in its *Sustainability Report* the critical metrics for measuring and managing climate-related risks along with the internal targets toward fulfilling its commitments. The BSP also references the NGFS' Guide on Climate-Related Disclosures for Central Banks.

This inaugural issuance is launched as a stand-alone report supplementing the 2022 Annual Report of the BSP. As the BSP gains maturity in the implementation of its sustainability-related policies and initiatives, the Sustainability Report is envisioned to be an integral part of the BSP annual report.

This *Report* is organized as follows: Section 2 summarizes the efforts of the BSP to integrate sustainability principles in the areas of monetary policy and operations, financial supervision, and support operations; Section 3 features the participation of the BSP in varied local, regional, and global conversations on sustainable finance; and Section 4 enumerates the next steps of the BSP to further contribute to climate action efforts.

https://www.ngfs.net/sites/default/files/medias/documents/guide_on_climate-related_disclosure_for_central_banks.pdf

NGFS (2021), Guide on Climate-related Disclosure for Central Banks (December, Paris). Network of Central Banks and Financial Supervisors for Greening the Financial System.

Bank of Finland. (2022, February 18). Sustainability is catching on in central banks. https://www.treasuryfinland.fi/annualreview2021/sustainability-is-catching-on-in-central-banks/

II. The Bangko Sentral and its sustainability agenda

Central banks and financial sector regulators are at the forefront of advocating green or sustainable policies and practices, given their roles and functions in the financial system. The NGFS members are calling for collective action to raise the bar in addressing climate and environment-related risks and ensuring that the financial system is resilient against these risks.

In line with this, the BSP acknowledges that pursuing the sustainability objectives is important in achieving its core mandates of maintaining price and financial stability. Cognizant that these mandates are interdependent mutually reinforcing, the considerations integrating ESG sustainability-related factors in the design monetary policy and regulatory and supervisory frameworks. Through this, the BSP aims to send a clear signal of its firm commitment to the sustainability agenda in the financial system.

A. Sustainable Central Banking (SCB) Program: The overarching framework

Enabler, Mobilizer, and Doer Framework (see Figure 1)

The BSP has taken definite actions in promoting the sustainability agenda in the financial industry. This is in view of the potential impacts of climate change and other environment-related risks on (A) the prices of goods which affect the lives and livelihoods of Filipinos; (B) the safety and soundness of financial institutions, and (C) the stability of the financial system.

In January 2020, the Monetary Board (MB), as the highest governing authority in the BSP, approved the move to incorporate the sustainability agenda in

Figure 1: Enabler, Mobilizer, and Doer Framework



the organization's corporate strategy. Such a decision prompted the review of the 2020-2023 BSP Strategy, in which the Bank's role in addressing climate change and other environment-related risks was discussed as one of the strategic points of interest.

The BSP launched the SCB Program as part the 2020-2023 BSP Strategy (see Figure 2). The SCB Program aims to foster environmentally responsible and sustainable policies and work practices as well as integrate ESG aspects in the BSP's key functions and operations through the roll-out of various initiatives.

This pursuit is guided by the overarching framework which highlights the essential roles of the BSP as an *enabler*, *mobilizer*, and *doer*.

As **enabler**, the BSP focuses on how it would embed sustainability principles in existing regulations and supervisory tools that allow supervised financial

institutions to strike a critical balance between effectively managing risk and adopting sustainable principles and practices. This means achieving the financial institution's ESG objectives while continuously supporting the financing needs of households and businesses for economic growth.

The BSP also subscribes to the principle of proportionality such that the implementation of an environmental and social risk management (ESRM) system should be commensurate to a bank's size, risk profile, and complexity of operations.

As **mobilizer**, the BSP has the twin objectives of channeling large investments to sustainable projects and financial instruments and of promoting inclusive green finance. It aims to lead by example and shape financial institutions' behavior and response toward making responsible investment decisions.

As **doer**, the BSP adheres to the same standards for environmental preservation and protection and adopts sustainability

Figure 2. The 2020-2023 BSP Strategy



The Office of Strategy Management takes the lead in the development, execution, and review of the corporate strategy and enterprise project management processes in the BSP to ensure a high level of integration and alignment across all operational areas.

principles or ESG criteria in the BSP's key functions and operations.

Creation of the TWG supporting the SCB Program

Within the BSP, the adoption, coordination, and implementation of sustainability initiatives is led by the SCB-TWG.

The BSP deemed that a TWG set-up is initially more suited, as (A) sustainability initiatives involve cross-functional expectations; (B) it is agile or flexible; and (C) key functions or operations are represented and members from the concerned departments will be able to assist in the implementation of the initiatives under the SCB Program.

The SCB-TWG is co-chaired by the Office of Strategy Management (OSM)¹² and the Policy and Specialized Supervision Sub-Sector.¹³ The deputy governors from the Financial Supervision Sector (FSS), Monetary and Economics Sector (MES), Payments and Currency Management Sector (PCMS), Regional Operations and Advocacy Sector (ROAS), and Corporate Services Sector (CSS) serve as advisers to the SCB-TWG.

There are two bank-wide sub-groups under the SCB-TWG: the Sub-group on Vulnerability Assessment of BSP Offices and Branches, and the Sub-group on Self-Assessment of BSP Operations or Functions.

The first sub-group was created emanating from the MB instruction to determine the impact of climate change to the BSP, implying that the BSP is not immune from the negative effects of climate change. The work of the first subgroup aims to promote awareness in the organization; and inform the BSP's enterprise risk management system.

supervisory policy and research, data management, and supervision of BSP-supervised financial institutions particularly relating to money laundering/terrorist financing/proliferation financing, market and liquidity, trust, and information technology risks.

¹³ The Policy and Specialized Supervision Sub-sector is the principal arm of the BSP in the conduct of

The second sub-group was formed to determine the readiness and extent to which ESG principles can be embedded in BSP policies and operations without undermining performance targets and efficiency standards, and to identify issues and challenges in the ESG integration process.

SCB-TWG meetings are held regularly to developments monitor the implementation of sustainability-related initiatives as well as discuss challenges regarding the delivery and timeline of the same. The TWG, through the co-chairs, submits updated status of sustainabilityrelated initiatives to the OSM, forming part of the quarterly review of the BSP Strategic Programs. Relevant reports were also submitted to the Governor or to the MB to inform them of completed initiatives under the SCB Program as well as of risks or issues that may hamper the achievement of the objectives of the Program.

The 11-point SCB Strategy: phases of development (see Figure 3)

The SCB Program adopts a phased approach to implementation:

- The first phase of the program was for building awareness and understanding of sustainability principles across the organization. The BSP rolled out a series of capacity-building initiatives within the Bank, initially offered to senior management and the MB¹⁴.
- > The second phase involves the conduct of a vulnerability assessment or a study on the impacts of natural hazards on the BSP Head Office, Security Plant Complex, and regional offices and branches across the country. The study aims to identify the vulnerabilities of BSP facilities and enhance business continuity strategies to reduce business disruptions. The results of the study

were considered in improving the risk management policies of the BSP.

Figure 3.
SCB Strategy Development Phases



This was followed by a self-assessment exercise to identify areas in BSP operations where ESG-related standards and principles could be embedded. The initiatives to close the gaps identified in the said exercise are aligned with organizational objectives and carefully designed so as not to compromise effective delivery of the BSP mandate.

The third phase involves consultations with relevant BSP departments with experts, the results of which served as the building blocks for the development of the BSP's SCB Roadmap or the 11-point SCB Strategy.

The 11-point SCB Strategy was developed under the technical assistance provided by the Asian Development Bank. Dr. Ulrich Volz, director of the Centre for Sustainable Finance, School of Oriental and African Studies (SOAS), University of London, was tapped by the ADB to provide expert insight and support for the development of the 11-point SCB Strategy.

On 22 December 2022, the BSP launched its 11-Point SCB Strategy (see Figure 4) with respect to championing the sustainability agenda in the financial system as *enabler*, *mobilizer*, and *doer*.

The BSP aims to implement the 11 targeted strategies and related initiatives in the next two to three years to mainstream green and sustainability principles and practices in its operations and across the financial system.

on 15 September 2020, supported by the British Embassy Manila.

¹⁴ The Bank of England conducted a virtual awareness briefing to BSP senior management

B. Nexus of monetary policy and climate change

Governance

While NGs are the primary agent in mitigation in response to climate change, central banks also play an important role in managing the impact of climate change on their ability to deliver on their price and financial stability mandates. Determining exactly how climate change affects the conduct of monetary policy and how central banks should respond to climate change remains a work in progress. Nonetheless, central banks are currently putting forward action plans and initiatives on how best to incorporate climate change in their mandates or policy frameworks.

Figure 4. The 11-point SCB Strategy



The impact of climate change on inflation is taken into consideration in the Advisory Committee's review of monetary policy of the BSP. Weather-related shocks are included in the assessment of price changes and growth, and in the risks to the inflation outlook.

The Advisory Committee of the BSP is an integral part of the institutional setting for inflation targeting. The Committee is tasked to deliberate, discuss, and make recommendations on monetary policy to

the MB. The Committee is chaired by the Governor and has as members the deputy governors of MES, FSS, and CSS as well as by the heads of Financial Markets, the Monetary Policy Sub-Sector, and the Office of Systemic Risk Management.

Strategy

A growing body of research deals with climate change risks and impacts on the country's water resources, forestry, agriculture, coastal resources, and health, others. Extreme weather among conditions, for instance, could harm agricultural production, disrupt the food supply, and exert upward pressure on food prices. Given that the price of food is a significant component of the consumer price index, recognizing climate change risks is crucial for an inflation-targeting central bank such as the BSP.

The BSP's June 2022 Economic Newsletter (see Figure 5) provided 'preliminary thoughts' on climate change and monetary policy.¹⁵ It recognized that climate-related shocks could influence supply and demand conditions, which, in turn, hamper the central bank's ability to deliver on its price stability mandate.

BSP's practices The current in incorporating climate risks into the inflation forecasts mainly uses monitoring tools for climate-related developments. instance, the **BSP** monitors developments in the ENSO (El Niño-Southern Oscillation) Alert System and attends the Climate Outlook Forum organized by the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA) every month. The BSP also requests data or updates from the Department of Agriculture for information on output and monetary loss from damaged crops or livestock due to weather disturbances. For other related monitoring tools, the BSP tracks the impact of weather situation on water sources and irrigation. Developments in

Abenoja, Z., Ganapin, L., Armas, J., Asi, R., & Mandap, D., (2022). Climate Change and Monetary Policy: Some Preliminary Thoughts. BSP Economic Newsletter No. 22-03. Manila. Accessed

https://www.bsp.gov.ph/Media_And_Research/Publications/EN22-03.pdf https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6174

the global commodities market and the impact of climate conditions in other jurisdictions on global agricultural production and prices are also studied.

Figure 5. BSP's June 2022 Economic Newsletter on Climate Change and Monetary Policy: Some Preliminary Thoughts



То strengthen analysis of the relationship between climate change and monetary policy, the BSP is currently conducting an empirical study investigating the contemporaneous and long-term effects of temperature shocks on output growth (and other channels of economic activity such as crop production, livestock, fishing, manufacturing. services. real investment, and labor productivity in heat-exposed industries) as well as on inflation. which are the primary considerations of the BSP in its assessment of appropriate monetary policy stance. The results of this assessment can contribute to further studies pertaining to coordinated policy responses of monetary authorities. It is also important to note that the timely implementation of non-monetary policy interventions is crucial in addressing temperature shock-induced constraints, with appropriate monetary policy adjustments as complementary measures. The results of the study are

also expected to put forward several points that may be of particular interest to the NG and the BSP as an inflation-targeting central bank and financial system regulator.

The said study is the first empirical attempt to quantify the macroeconomic effects of temperature shocks in the Philippine setting. The authors' findings may serve as a starting point in understanding the wider consequences of climate change. Future research may include expanding the proxy measures for climate change and the coverage of the study to include other countries in the region. The model could also be extended to incorporate responses and (A) assess the extent of policy effectiveness in mitigating the impact of temperature shock-induced supply constraints, and to (B) explicitly identify the channels of impact of temperature shocks on inflation.

To the extent that climatic changes affect agricultural production, this would affect the level and volatility of inflation. Nevertheless, the impact of climate-related risks to price stability can be mitigated by well-timed and targeted interventions of the NG. This is included in the BSP communication to the public highlighting the importance of timely non-monetary policy interventions by the NG to address extreme weather-induced supply-side shocks.

The BSP has also published social media content (see Figure 6) on climate change as a supply-side risk to inflation. These posts aimed to communicate to the public in a less technical manner emerging issues on climate change as these impact the BSP's areas of responsibility and how the BSP addresses these issues.

The inflationary effects of temperature shocks in the short run are best addressed by the timely implementation of non-monetary policy interventions since monetary policy adjustment typically works with a lag. On the other hand, if inflation pressures remain persistent and evidence of

second-round effects materialize, the central bank will respond and adjust its policy interest rates accordingly.

Figure 6. Social Media Content on Climate Change



Box Article 1: The BSP's COP26 commitment

The BSP conveyed its statement of contribution to the 26th United Nations Climate Change Conference of Parties (COP26) on 10 November 2021. This is part of the NGFS collective declaration of commitment to meeting the global climate goals under the Paris Climate Agreement. In line with this, the BSP is committed to:

- a. Champion the sustainability agenda in the financial system through the roll-out of initiatives under the SCB Program to foster environmentally responsible and sustainable policies and work practices.
- b. Provide an enabling regulatory environment to equip banks in managing climate, environmental, and social risks and, at the same time, unlock financing for economic activities contributing to sustainable development.
- c. Facilitate the conduct of climate stress-testing exercises and collection of more granular data on climate and environmental and social risk exposures in the banking industry.
- d. Promote a collaborative approach in the financial sector, harmonize policies, and align initiatives with the objectives and strategies of the Philippine Sustainable Finance Roadmap and Guiding Principles.
- e. Build partnerships to intensify awareness and capacity-building activities for the financial sector.

The BSP's statement outlines its own approach toward contributing to the transition to a low-carbon economy and promoting the sustainability agenda in the financial system.

C. Greening the reserve portfolio

Governance

A central bank's framework for managing foreign reserves has traditionally focused on meeting a triad of objectives: liquidity, safety, and return. Recently, however, central banks have started to recognize the risks posed by climate change to price and financial stability and have begun incorporating sustainability objectives into their policy frameworks, including reserve management.

As a central bank that aims to be internationally recognized for advocating green and sustainable policies and practices, the BSP acknowledges the important role central banks play in supporting and promoting sustainable and responsible investing.

In the area of reserve management, the BSP has also been working toward incorporating sustainability considerations in its overall investment process. The management of the BSP's international reserves, including its responsible investments, follows a topdown approach. The MB approves the investment policy and strategic asset allocation and sets the risk tolerance for the overall foreign exchange reserves. The Investment Management Committee (IMC), which comprises the Governor; deputy governors of MES, FSS, and CSS; and heads of Financial Markets, approves investment auidelines parameters as well as oversees and provides direction and recommendations on the management of the reserves. Financial Markets oversees the day-today management of the BSP reserves and is tasked to operationalize the IMCapproved strategies, develop tactical portfolio strategies, and report activities/performance, among others.

Strategy

Sustainability principles could be integrated into the reserve management process either explicitly by articulating sustainability as a defined purpose for holding reserves, implicitly as a

supporting aspect of existing policy purposes, or a combination of both. Other approaches for incorporating sustainability principles by central banks include negative screening, and the incorporation of criteria on ESG factors. Focusing on impact investing, central banks have operationalized this by investing in green bonds.

The BSP was one of the early investors in the green bond funds of the Bank for International Settlements (BIS). The very first investment was made in October 2019. Since then, the total investments of the BSP in the BIS' green bond funds have increased through additional injections and new investments. In 2022, the BSP also allowed investment in green bonds in its internally managed portfolio.

Apart from investing in green bonds, the BSP has begun incorporating ESG considerations in the various areas of reserve management. In 2020, the BSP included ESG scores as an additional screen for its tactical investments. It also incorporated climate risks in risk management reports and benchmarked existing fund managers for their ESG practices.

The BSP is currently working to become a signatory of the UN Principles for Responsible Investment.

D. Greening the credit portfolio

Consistent with the 11-point SCB Strategy, the BSP is also looking at its credit operations on possible incentive schemes for the promotion of green lending by banks (see Box Article 2).

Box Article 2: Integrating sustainability in the BSP's loans and credit operations

Republic Act No. 7653, as amended (the "BSP Charter"), authorizes the Bangko Sentral ng Pilipinas (BSP) to extend discounts, loans, and advances to banking institutions, consistent with the objective of maintaining price stability and financial stability. The BSP ensures the effective delivery of this mandate by maintaining credit facilities available to banks under its normal, special, and emergency operations.

The BSP is cognizant of its significant role in managing the impacts of climate change on the financial system and in promoting sustainable finance by way of introducing enhancements to its operations that would (A) incentivize green lending by banks; and (B) penalize lending in environmentally hazardous economic activities. To this end, the BSP endeavors to "consider incentive schemes for the promotion of green lending by banks complemented by environmental risk-based penalizing factor" through its facilities under normal credit operations.

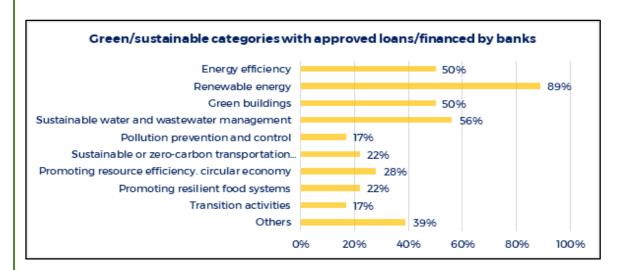
Building on this strategy, the BSP has so far (A) considered potential risks of climate change that would ultimately impact banks' availments for their liquidity needs to service affected sectors; and (B) looked into other central banks' pertinent practices.

Physical risks from weather disturbances or natural hazards of varying intensities (e.g., typhoons, flooding, landslides, and storm surges) could, among others, destroy properties, affect livelihood in certain areas, impair the financial capacity of bank borrowers, and devalue collateral properties. Therefore, significant liquidity concerns consequent to these events may prompt affected banks to avail loans from the BSP's Rediscounting Facility.

In June 2022, the BSP conducted a survey among selected central banks to benchmark with their approaches in embedding sustainability-linked components in their existing lending facilities. Results of the survey revealed that the most common initiative for supporting green/sustainable finance is the provision of funds at lower interest rates to enable financial institutions to finance green/sustainable projects and activities at lesser cost.

Another survey was conducted among universal/commercial banks (U/KBs) in August 2022 to (A) gather data on their current lending practices to finance green or sustainable projects; and (B) solicit information on their general interest in availing of BSP credit facilities. Survey results showed that 75.0 percent of respondent banks have financed or approved loans supporting green/sustainable projects, with total outstanding loans of ₱829.7 billion and US\$14.35 million as of 30 June 2022. The total outstanding loans of the respondent banks to green/sustainable projects represent approximately 7.0 percent of the Philippine banking system's total loan portfolio as of end-June 2022. The graph below summarizes the types of green/sustainable projects financed by these banks.

The top green/sustainable activities or projects supported by these banks are renewable energy (89.0 percent), sustainable water and wastewater management (56.0 percent), and energy efficiency and green buildings (both at 50.0 percent). Other activities financed by the U/KBs include projects promoting social welfare, socioeconomic empowerment, affordable infrastructure, access to essential services, and microfinancing in underserved communities (collectively at 39.0 percent).



The BSP can consider these activities/projects, as well as the Philippine Sustainable Finance Guiding Principles and the Sustainable Finance Taxonomy being developed by the Financial Sector Forum (FSF), in establishing a list of eligible and ineligible economic activities or projects to be incentivized through the BSP's facilities under normal credit operations.

The survey likewise disclosed banks' strong preference for reduced rediscount rates and higher collateral and/or loan value as incentives.

The insights gathered from both surveys support the BSP's proposed initiatives to introduce incentives to promote green lending among banks, to the extent allowable under the BSP Charter.

Moving forward, the BSP will continue to collect and analyze data as a foundation for integrating ESG aspects in its credit operations and, ultimately, contributing to sustainable and resilient growth as envisioned under the Bank's 11-point SCB Strategy.

As for additional risk mitigating measures, the BSP will look into such risks in detail to assess the possible impact on credit operations and create appropriate safety nets. For physical risks, the BSP will consider (A) mapping out properties used as collateral for outstanding and past due loans and determining the relative exposure or vulnerability to environmental or climate/physical risks of the location of each collateral property; and (B) performing an in-depth assessment of potential impacts on collaterals through scenario-analysis and/or stress-testing. For associated risks (such as greenwashing of projects or activities proposed for financing), any incentive schemes will be aligned with the Sustainable Finance Taxonomy being developed by the FSF such that economic activities or projects acceptable under the BSP Rediscounting Facility will be further assessed as legitimately sustainable, in line with their carbon-reduction commitments, and properly categorized as eligible or ineligible for the incentive.

Lastly, to ensure successful implementation of the SCB strategies and initiatives, the BSP will continue building the capacity of its personnel through targeted trainings that will further shape their understanding of sustainability challenges and of good practices among other central banks.

E. Financial supervision: promotion of sustainable finance

Governance

As the regulator of the banking system, the BSP is at the helm of enabling the financial system to embrace sustainability principles and mobilize investments toward activities that will promote financial inclusion, climate resilience, and sustainable development.

Creation of the TWG on sustainable finance

A separate TWG on Sustainable Finance from the BSP-FSS was created to develop sustainability-related policies undertake guidelines, vulnerability assessment or climate stress-testing of the banking system, roll-out capacity building activities for supervisors and banks, and integrate the sustainabilityrelated guidelines in the BSP's Supervisory Assessment Framework (SAFr).

The TWG comprises representatives from the policy development, bank supervision, and specialized units.

Strategy

Two-pronged approach

The BSP employs a two-pronged approach to promoting sustainable finance and building climate resilience in the banking sector, in support of the climate-related priority agenda under the *Philippine Development Plan 2023-2028*.

The first prong—strengthening capacity building and awareness initiatives— underscores the relevance of fostering active and meaningful participation and collaboration among a wide range of stakeholder groups. Collaboration could be on effectively building institutional capacity, developing competencies, and raising the level of awareness on climate change issues. Interventions are aimed at (A) deepening understanding of various environmental and social risks which may stem from banking activities; (B)

enhancing capacity to identify, assess, and effectively manage these evolving risks and their impact on the bank's operations and financial condition; and (C) increasing banks' awareness on the investment opportunities for green or sustainable projects.

The second prong-mainstreaming sustainable finance through the issuance of enabling regulations—is underpinned by the BSP's adoption of a principlesbased approach to regulations. Such regulatory approach reinforces the BSP's adoption of the principle proportionality, which affords banks flexibility in embedding sustainability considerations in their corporate governance and risk management frameworks, as well as in their business strategies and operations. This recognizes that there is no one-size-fits-all approach to managing environmental and social risks. Rather, the implementation of standards and choice of risk should be management tools proportionate to the size, structure, and complexity of banks' operations, and must be aligned with their business strategies and risk appetites.

BSP's The sustainability-related quidelines build on existing regulations that promote good corporate and risk governance and effective risk management among supervised financial institutions. Regulatory reforms over the years have laid down the BSP's supervisory expectations from the board of directors and management in setting and maintaining a strong tone of good governance at the top and in ensuring that this is consistently adopted across organization. Under frameworks for credit and operational risk management, banks are also expected to consider key risks that may impact the business environment where thev operate so they could make informed business decisions which may include climate and environmental concerns, and other sustainability issues.

In developing related definitions and expectations in the sustainability-related guidelines, the BSP, to the extent practicable, adopted globally recognized

standards or frameworks that aim to catalyze sustainable finance. These standards, as prescribed in international conventions and by multilateral agencies and standard-setting bodies, were tailorfit to the Philippine financial services landscape, considering local circumstances, opportunities, and challenges.

Issuance of enabling sustainabilityrelated guidelines

In line with its financial stability mandate, the BSP has adopted a phased approach to issuance of sustainability-related guidelines, considering the breadth and evolving nature of the areas relating to sustainable finance and allowing banks to gradually build capacity and expertise and effectively manage the attendant risks.

These guidelines set out the BSP's supervisory expectations for banks in integrating climate risk considerations alongside the broader environmental and social aspects in their governance and risk management frameworks. Apart from reinforcing bank response in terms of proactively managing environmental and social risks, these regulations aim to facilitate channeling of funds into projects linked to environmental preservation and sustainable development.

In terms of the scope of application, the sustainability-related guidelines shall initially apply to all banks, including branches of foreign banks operating in the Philippines. Such an approach recognizes that the Philippine financial system continues to be bank-centric. Nonetheless, the guidelines will also be extended to supervised non-bank financial institutions.

The sustainability-related issuances of the BSP include the following:

Circular No. 1085, or the Sustainable Finance Framework, 16 issued in April 2020. The Framework establishes the broad expectations of the BSP in incorporating

sustainability principles into the governance and enterprise risk management frameworks and processes of banks, as well as in their business strategies and operations. This likewise provides the core foundation for banks' sustainability frameworks, as well as the BSP's succeeding policy issuances.

The three important elements of the Framework are governance, risk management, and disclosures, as follows:

Role of the board of directors and senior management. In line with the BSP's governance reform agenda, the Framework underscores the pivotal role of the board of directors of banks in leading and institutionalizing the adoption of sustainability principles. This features the key aspects of board and senior management responsibilities encompassing organizational culture, risk management oversight, and transparency.

The board is expected to promote a culture that fosters environmentally and socially responsible business decisions, and to ensure that sustainability implications are considered in the overall decision-making process. In a similar vein, the board and senior management are also expected to enhance the banks' risk management system by looking beyond traditional sources of financial risks. The guidelines highlight their primary responsibilities in overseeing effective implementation of the Framework as well as ensuring compliance with relevant sustainabilityrelated standards, laws, and regulations.

Environmental and Social Risk Management (ESRM) System. The ESRM System refers to the policies, procedures, and tools to identify, assess, monitor, and mitigate exposures to environmental and social risks. This should be aligned with the banks' E&S risk appetite, which means that the scope and complexity of the ESRM

¹⁶

https://www.bsp.gov.ph/Regulations/Issuances/2020/c1085.pdf

System should be commensurate with the level of E&S risks associated with banks' portfolios.

Prior to developing their ESRM System, banks are expected to have an understanding of how E&S risks translate to financial risks. Both climate transition and physical risks affect and businesses, households, macroeconomy and ultimately affect the financial risk exposure of banks. Understanding the transmission mechanisms is key to determining the appropriate approach toward incorporating the ESRM System in banks' existing risk management frameworks and scenario analysis or stress-testing exercises.

> Disclosure requirements. Banks are required to disclose several elements of their sustainability agenda in their annual reports to enhance market discipline and transparency as well as contribute to the development of a sustainable finance market. disclosures include their strategic sustainability objectives and risk appetite, an overview of the ESRM System. products and breakdown of environmental and social risk exposures, and their potential impact on the bank. Such disclosure requirements are broadly aligned with the Sustainability Reporting Guidelines for Publicly Listed Companies issued by the SEC.

Circular No. 1128, or the Environmental and Social Risk Management Framework," issued in October 2021. This Framework complements the BSP's comprehensive credit and operational risk management guidelines as it sets out granular expectations on the management of E&S risks in relation to banks' existing frameworks.

The Framework aims to provide a more robust view of credit and operational risks by identifying and assessing the implication of climate and sustainability-related risks in its lending activities and operations.

Banks are expected to progressively increase their loan allocations for green or sustainable projects in line with their set objectives. Likewise, they should conduct an assessment of the vulnerability of their offices or branches and operations to physical risks and other natural hazards. The results of the assessment should feed into the potential enhancement of business continuity plans or disaster recovery plan of banks.

Circular No. 1149, or the Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks, is issued in August 2022. The Circular covers investments in debt and equity securities held in the banking book.

Banks are expected to incorporate sustainability objectives in their strategies and corresponding risk appetite relating to investment activities. Banks must ensure that such investments do not contribute to sectors whose business activities are identified as having adverse an impact on the environment or society.

The Circular provides sample approaches on the selection of investments, but banks are not precluded from adopting other approaches and global best practices they deem appropriate, depending on their investment policy and sustainability objectives.

Banks shall also adopt measures to ensure that the investment funds are only channeled to companies that comply with sustainability-related standards, laws, and regulations and to those that do not engage in greenwashing.

Memorandum to All Banks (MAB) No. M-2022-042, or the *Guidance on the Implementation of the Environmental*

https://www.bsp.gov.ph/Regulations/Issuances/2022/1149.pdf

¹⁷

https://www.bsp.gov.ph/Regulations/Issuances/2021/1128(Corrected%20Copy).pdf

and Social Risk Management System,¹⁹ issued in September 2022. This informs banks on the preliminary steps or approaches that may be considered in developing an ESRM System. The Guidance also lays down the minimum supervisory expectations of the BSP as embodied in the issued Circulars. It also provides information and reference to publications of the NGFS and the BCBS, among others, to support the development of an ESRM System.

Regulatory incentives. Aside from recognizing E&S risks, the sustainability-related regulations also provide investment or financing opportunities for green or sustainable projects.

To scale up the participation of financial institutions, there are already existing BSP regulations that incentivize financing of or lending to green or sustainable projects.

- First, loans granted by a bank to an entity—often a special purpose entity or SPE—for the purpose of project finance (e.g., power-generation, transmission, or distribution-related facilities) is subject to a separate individual limit of 25 percent of the net worth of the lending bank.
- Second, sustainable projects—subject to certain parameters—are excluded from prudential limits such as (A) 30 percent unsecured individual ceiling for directors, officers, stockholders, and their related interests (DOSRI) if the sustainable project falls within the definition of project finance, (B) 25 percent real estate loan limit if the project is for public use, and (C) large exposures monitoring threshold if the sustainable projects are in the form of project finance.
- Third, the passage of the Agriculture, Fisheries, and Rural Development Financing Enhancement Act of 2022,

as implemented by Circular No. 1159 issued in November 2022, recognizes sustainable finance as one of the allowable forms of compliance with the mandatory credit to the agriculture sector and rural development.

Study on the impact of extreme weather episodes on the Philippine banking sector

The BSP conducted a study on the impact of extreme weather conditions, particularly rainfall events, on banking sector performance, including on lending capacity, funding sources, and financial soundness in 2020.²⁰

Using regional branch-level supervisory data, the study confirms that severe weather conditions adversely impact banking resources and operations, as demonstrated by negative effects on deposits and loan growth, loan quality, and profitability. The results confirm that the financial sector is not immune from the severe economic impacts of natural disasters and climate change.

Conduct of climate risk stress testing

The BSP, in collaboration with the IMF and the World Bank (WB), facilitates the conduct of bank stress-testing exercises to assess climate-related risks in the banking system. This covers both physical and transition risks.

The physical risk stress testing, jointly conducted by the IMF and the WB within the context of the Financial Sector Assessment Program (FSAP),²¹ examined the potential economic and financial impact of physical capital destruction from typhoon winds and was published as an IMF Technical Note in 2022.

The paper's results—which should be interpreted cautiously, given technical and data constraints—indicate that the impact of climate change on financial stability is

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https://www.bsp.gov.ph/Regulations/Issuances/2 022/M-2022-042.pdf

https://www.bsp.gov.ph/Media_And_Research/W PS/WPS202003.pdf

https://www.imf.org/en/Publications/CR/Issues/2 022/06/02/Philippines-Financial-Sector-Assessment-Program-Technical-Note-on-Bank-Stress-Test-for-518566

dependent on the models and assumed severity and number of hazards. Specifically, wind damage from extremely rare typhoons (those that occur once in 100 or more years) on GDP growth could already be systemic in the Philippines and is expected to worsen substantially with climate change. The effect on bank capital, however, seems to be largely manageable due to the Philippine banking system's strong initial conditions and limited exposure to economic vulnerabilities. Nonetheless, the study informs that the banking sector impact can be systemic when compounded with another extreme disaster, such as a pandemic. On the other hand, the lingering impact of climate-related physical risk on the Philippine financial system appears to be small, with annual profits of banks deemed sufficient to absorb credit, market, and income shocks from climate change.

Meanwhile, a climate transition risk stress test is being done by the BSP in collaboration with the WB and is expected to be completed within the year. This exercise will inform the development of policies that would form part of the risk management expectations of the BSP.

Pilot natural hazard assessment of volunteer banks in the Philippines

Awareness of E&S risk exposures is crucial in managing the potential financial risks to banks' loan portfolio. In this view, the BSP is conducting a pilot natural hazard assessment with volunteer banks in the Philippines to establish a practical approach in identifying and measuring the physical risk exposures of selected bank loan portfolios to various natural hazards such as earthquakes, tsunami, flooding, landslides, liquefaction, and storm surges.

Results of this exercise will help enhance the roles of the BSP and banks in responding to climate and various environmental risks. Information and experiences gathered will help inform the BSP's development of further regulatory guidance to support the banks' implementation of their respective ESRM System, in accordance with the ESRM Framework under Circular No. 1128 and MAB No. M-2022-042. For volunteer banks, this serves as a practical application of

approaches and available tools to enhance their E&S risk assessment methodologies.

Moving forward, this exercise will serve as reference for banks in assessing the potential financial risks, particularly credit and operational risks, arising from the exposure of their borrowers to natural hazards, and considers appropriate risk management measurement approaches commensurate to the banks' size and business operations.

This pilot assessment used HazardHunterPh, developed by GeoRisk Philippines. HazardHunterPh is a webbased tool with a map interface that allows users to conveniently generate hazard assessment reports on any location in the Philippines. It can conduct multi-hazard assessment for seismic, volcanic, and hydrometeorological hazards, and includes explanations and recommendations from key agencies such as the Department of Science and Technology-Philippine Institute of Volcanology and Seismology (PHIVOLCS), Department of Science and Technology-PAGASA. and Department the Environment and Natural Resources (DENR)-Mines and Geosciences Bureau.

The PHIVOLCS provided significant technical support in this pilot exercise, particularly in generating the hazard assessment results. The BSP and the volunteer banks are set to complete the analysis of the results this year.

F. Greening the BSP'S operations

1. Enterprise risk management

In 2022, the Enterprise Risk Management (ERM) framework of the BSP was enhanced to align with the latest industry standards. Part of the enhancement is the integration of sustainability and ESG-related risks into the risk management framework and processes. ESG-related risks are identified as part of the BSP risk universe and are subject to the risk management framework, which adopts both top-down and bottom-up approaches for the identification. prioritization, assessment, treatment, reporting, and monitoring of risks.

The Compliance Management System (CMS) of the BSP was approved in November 2022 and consists of an integrated system of processes, tools, internal controls, and functions to ensure BSP's adherence to its compliance obligations, including compliance with sustainable and environmental requirements. Implementation of the CMS helps in reducing negative impacts to environment and supply sustainability, as well as the direct effect on environment by those involved throughout the supply chain because it drives compliance with applicable laws, rules, regulations, and standards.

As part of its mandated function to conduct independent quality assessment (IQA) of approved management systems of the BSP, an IQA on the implementation of the Environmental and Occupational Health Management and Safety System (EOH&SMS) in the Head Office and nine regional offices and branches was made in 2022. The IQA was conducted to evaluate the effectiveness of the implementation of EOH&SMS, which includes environment management in the aspects of air quality, water quality, ground water protection, oil spill prevention, environmentally harmful materials, waste management pollution control, and hazardous waste management. The IQA was also conducted to check the adherence of BSP departments and offices to obligations related to EOH&SMS, including compliance with statutory requirements pertaining to the environment.

The IQA for responsible gold sourcing was also conducted in relation to BSP's gold buying operations to evaluate the effectiveness of the gold supply chain due diligence processes and systems in meeting the objectives of the Responsible Gold Guidance (RGG) by the London Bullion Market Association. The RGG outlines the appropriate gold supply chain due diligence policies and governance structures to oversee the prevention and mitigation of risks or adverse ESG impacts in the refiner's gold supply chain.

2. Currency production

One of BSP's mandates is to ensure an adequate supply of currency and the BSP adopts zero tolerance for failure to provide sufficient supply of banknotes and coins to the public. In support of this mandate, the BSP has been operating and maintaining a currency manufacturing facility, the Security Plant Complex (SPC), since 1978.

As with most manufacturing facilities, the SPC consumes large amounts of energy and resources, uses controlled chemicals necessary for production, and operates regulated pollution source installations, among others.

In addition to the production operations' environmental impact, there is also the identified carbon footprint of currency distribution activities. It is understood that the challenge of prolonging the life and usability of banknotes and coins is largely influenced by their design specifications to account for durable and resistant materials.

To balance the delivery of the mandate and the ecological impact of currency production, the BSP is adopting two major initiatives: (A) building a sustainable production facility outside of Metropolitan Manila, and (B) shift to polymer banknotes. These initiatives not only support cost-effectiveness and economy but embraces the sustainability agenda as well.

Moreover, the two major action plans address the risks of large dependency on fossil fuels, high financial costs of operating old facilities and utilities, difficulty in complying with strict environmental regulations in a highly congested urban area, and the infrastructure limitations of adopting green production initiatives in an existing facility.

Recognizing the need to act expeditiously on mitigating the effects of climate change, the SPC will also implement short-term sustainability programs to address current risk exposures:

- Environmental impact assessment of currency production;
- Energy conservation measures;
- Use of banknote briquettes as alternative fuel, and proper disposition of destructed coins; and

> Shift to use of environment-friendly chemicals and equipment.

Adoption of polymer banknotes

In line with its authority to issue Philippine currency and considering global best practices, the BSP explored the adoption of polymer banknotes.

The use of polymer banknotes is considered significantly cleaner and less susceptible to viral and bacterial transmission due to their smooth and non-absorptive surfaces. Polymer banknotes are also highly durable resilience against extreme temperatures and resistance against water and dirt. The use of polymer banknotes is also cost-effective: based on central banks' experiences, expenses from issuance of polymer banknotes could be reduced by 40 to 60 percent. Adding to the potential savings is that polymer notes have lower water and energy usage. In terms of recyclability, polymer notes have more than one life cycle, i.e., they last 2.5 to 4 times longer than paper money. Thus, polymer banknotes can be kept longer in circulation.

The new 1,000-Piso polymer banknote strengthens the BSP's efforts to promote smarter (more secure and sustainable), cleaner (more hygienic and sanitary), and stronger (durable and cost-effective) banknotes, in response to the evolving needs of Filipinos and the availability of modern technologies.

The issuance of the new 1,000-Piso polymer banknote was approved by the Office of the President and the BSP Monetary Board. The BSP started issuing the 1,000-Piso polymer banknote in April 2022 with ten million pieces ready for circulation. By 2023, the BSP also expects that 500 million pieces of 1,000-Piso polymer banknotes will be in circulation alongside the existing 1,000-Piso paper banknotes.

As of end-December 2022, 17,304 ATMs or 92 percent of the total number of ATMs in the country have been recalibrated by banks to dispense the 1,000-Piso polymer banknotes. Up to 7,274 of these polymer-ready ATMs are in the National Capital Region.

A total of 53.37 million pieces have been released to the banks as of 31 December 2022.

3. Technology and innovation development

Globally, digital transformation is leveraged to achieve sustainability. Digital technologies are used to monitor sustainability progress, optimize use of resources, and reduce GHG emissions, which also enables innovation and collaboration.

The BSP's Digital Transformation (DigITALL), which is aligned with the BSP's Corporate Strategy, envisions "a digitally transformed organization that is driven by a strong digital leadership, innovative and collaborative culture, secure and efficient technology ecosystem, and optimized work processes that support data-driven decisions."

The focus of DigITALL is to address gaps in people, process, and technology, ensuring broad-based transformation to achieve its desired state. These include:

- Equipping and empowering BSP staff
 to adopt appropriate technologies and
 practices that provide more efficient
 service to BSP's stakeholders. This
 includes the addition of the 'digital
 mindset' competency as a bank-wide
 competency, which captures one's
 willingness to learn and use digital
 technology in the workplace, including
 agility and flexibility toward new digital
 tools and solutions.
- 2. Optimizing and digitalizing business processes to improve efficiency and reduce paper and printing waste. This includes the implementation of the Electronic Document Tracking System and Enterprise Document Management System, as well as the Data Lifecycle Management Policy and the adoption of electronic and digital signatures.
- 3. Establishing an environment that is agile, robust, and secure. This employs cloud technologies that operate and scale through shared resources, such as

the BSP's Hyperconverged infrastructure, as well as the ongoing modernization of legacy systems, for greater computing efficiency and to leverage the efficiencies of modern technology.

These initiatives support the pursuit of the 11-point SCB Strategy by contributing to the reduction of carbon footprint in the delivery of services. The BSP continues to push for digital solutions that incorporate environmental considerations. The following plans have been developed to achieve this goal:

a. Green software

Green software, also known as sustainable software, is a software designed, developed, and implemented with a conscious consideration of energy consumption and its potential impact on the environment. The BSP will implement green coding principles to promote lean coding practices, where a minimal amount of processing is necessary to achieve the same outcome. This will ensure that the programming code created and written will be energy-efficient, thus, reducing the potential environmental impact.

The BSP will continue to move toward modern digital solutions that provide more efficient, safer, and robust services and allow for more in-depth data analysis. The BSP will likewise invest in continuing professional education for staff to develop IT skills and competencies, creating business solutions that promote sustainable development.

b. Green Data Center

Mindful of the growing environmental threats, the BSP is working toward attaining a Green Data Center. This data center is planned to be modern, automated, robust, resilient, and world class Tier 3, with an integrated command center and security

operations center. To reduce fossil fuel consumption, solar panels will be installed on the roof of the data center. The BSP also aims to obtain green certification for the data center through the LEED²² or BERDE²³ Green Building Rating System.

By taking these steps in transforming mindsets, practices, processes, and technology, the BSP is contributing significantly toward achieving sustainability in central banking and becoming a digitally transformed organization.

4. Building and facilities maintenance

Various initiatives are being undertaken to promote green, sustainable, and responsive building design and provide resilient buildings for the BSP. These initiatives include building a smart, green, and modern facility that promotes environmental sustainability and efficiency. It also features expansive greenery and natural working spaces, exemplifying BSP's continuing commitment to health, wellbeing, and environmental preservation.

- Design guidelines for new buildings of the BSP, which serve as a guide for architectural and engineering consultants, require that the development, improvement, and upgrading of facilities should follow green and sustainable design, concepts, and systems.
- For the continued promotion and application of resilient building design, the latest provisions of the National Structural Code of the Philippines and the technological breakthroughs in structural design are applied to or implemented in the BSP's regional office building projects and to workplace modernization projects.

For instance, the design of the BSP Iloilo Branch features the Brise Soleil and

monitor, and certify the performance of green building projects above and beyond existing national and local building and environmental laws, regulations, and mandatory standards. It is the recognized green building certification in the Philippines by the World Green Building Council.

LEED (Leadership in Energy and Environmental Design) is the most widely used green building certification in the world. Developed by the nonprofit U.S. Green Building Council (USGBC), it provides a framework for healthy, efficient, and cost-saving green buildings.

²³ BERDE (Building for Ecologically Responsive Design Excellence) is a tool to assess, measure,

Exterior Insulation Finish System (EIFS). The Brise Soleil is an architectural design that helps reduce overheating by averting glare, which improves usage of natural lighting and regulates temperature. The EIFS is a sustainable, durable, resilient, and lightweight material that will be used alongside the Brise Soleil design.

- The use of locally available, eco-friendly, high quality, and high-performance materials (e.g., low volatile organic compound or VOC materials and waterbased paints) are specified to suit requirements for BSP buildings.
- Energy and water efficiency concepts and systems are also implemented for BSP buildings.

The BSP has deployed energy efficiency measures such as solar-powered perimeter lighting and lamp posts at the branches of the BSP buildings in Palawan, Cotabato, Bacolod, and Iloilo; light-emitting diode or LED lighting system and water-efficient plumbing fixtures for new buildings; and energy efficient airconditioning equipment or system for new buildings.

The BSP has also adopted water efficiency practices such as installing water-efficient toilet fixtures for new buildings, and rainwater harvesting systems in BSP branches in Palawan, Cotabato, Iloilo, and Bacolod.

- Other green initiatives implemented in the BSP offices are as follows:
 - ✓ Use of biofiltration and skimmer system for fishponds;
 - Continuing conduct of Work Environment Measurement (WEM) ensure compliance with applicable environmental and occupational safety and health laws. As of end-March 2023, the WEM was conducted in 20 offices departments in the Head Office and 10 regional offices and branches;
 - ✓ Creation of rooftop gardens and landscaping dotted with Tabebuya

cherry blossom trees at the BSP complex to provide a cooler environment that also softens the concrete structures, allowing BSP employees to better appreciate the built environment;

- ✓ Use of recycled materials for Christmas decorations since 2017;
- ✓ Replacement of direct expansion (DX) airconditioning system with units that use inverter technology and non-depleting ozone refrigerant;
- ✓ Installation of variable frequency drive (VFD) in air-handling units and ventilation equipment for a more efficient operation and reduced carbon footprint;
- ✓ Installation of solar panels at roof decks of BSP offices. Around 2.0 percent of the electric consumption of the BSP Head Office is being sourced from the said solar panels; and
- ✓ Installation of energy-saving or lowwater consumption automatic flush sensor for urinals and water closets.

5. Procurement

The BSP is also starting to green its procurement process by adopting environmentally responsible and sustainable measures.

Ordinarily, procurement transactions require and generate voluminous documents—from the time the bidder avails of the bid documents until the contract is awarded and copies of the relevant documents are transmitted to the relevant government offices. However, with the use of technology in the conduct procurement processes, to the extent allowed by the Government Procurement Reform Act and its Revised Implementing Rules and Regulations, it is expected that paper usage will be reduced if transactions and preparation and approval of documents are done online or through an online system. In this regard, the BSP has institutionalized an online bid submission through its secured "e-bidding facility" where bidders are allowed to submit electronic documents as an alternative to manual submission of paper-based bids. The selling and sending of bidding documents or other procurement-related documents to internal and external clients as well as the conduct of pre-bid conference and opening of bids are made online.

The electronic submission of bids and the conduct of relevant bidding processes virtually also contribute to the reduction in carbon footprint. Recognizing the benefits to the environment of the use of technology, the BSP intends to fully automate the end-to-end procurement procedures and processes to significantly enhance efficiency in the processing time involved in the preparation and editing of procurement documents, thereby promoting a less-paper environment.

The BSP also supports the Green Public Procurement (GPP) Roadmap of the Government Procurement Policy Board²⁴ which aims to establish a Sustainable Procurement Program in government offices through short-, medium- and longterm plans, with the objective of promoting sustainable policy decisions, crafting sustainability criteria in public purchases, and developing programs to incentivize suppliers of sustainable products. Pending full implementation of the GPP in the Philippines and absent specific green technical specifications for non-common use supplies, the BSP departments have started to implement the use environment-friendly and DENR-compliant specifications/ requirements in projects.

6. Capacity development

As part of the commitment to fostering the sustainability agenda, the BSP pledged to intensify efforts to build the necessary skills,

capacities, tools, and cooperation to successfully implement the 11-point SCB Strategy. To this end, the BSP's Capacity Development Department is working on identifying training needs as well as and facilitating capacitydeveloping building programs for BSP officers and staff on E&S risks and sustainable finance. The BSP will also organize specialized training for staff implementing the initiatives under the 11-point SCB Strategy. Α notable development on this is that the ESG is already incorporated as a core topic for the training programs and workshops provided by multilateral agencies such as the WB and BCBS, training providers like the SEACEN and Toronto Centre, and other interest groups (e.g., external fund managers).

The BSP has also partnered with both local and international organizations or development agencies to raise awareness and strengthen capacity among supervised financial institutions and financial supervisors.²⁵

Nonetheless, the BSP is actively engaged in and conducts capacity-building activities to advance internal and external stakeholders' awareness, understanding, and management of climate-related risks through training activities, workshops, and technical webinars. A stocktaking on the availability of climate and environment-related data required by the banking industry is being considered as an initial step to enhancing the capability of the BSP in doing climate risk assessments.

²⁴ The Government Procurement Policy Board (GPPB) was established by virtue of Republic Act No. 9184 (Rep. Act 9184) as an independent interagency body that is impartial, transparent, and effective, with private sector representation. The

GPPB acts as the oversight authority in all Philippine government procurement.

²⁵ This includes the WB, IMF, ADB, British Embassy Manila, WWF Philippines, and Allotrope Partners.

Box Article 3: BSP's digital finance efforts: pathway to sustainable and inclusive development

The BSP is cognizant that expanding digital financial services can be pivotal to rebuilding and growing the economy in a sustainable and inclusive way. A digitally transformed economy will not only strengthen the country's resilience to future shocks but also improve delivery of public services and allow for more equitable access and opportunities for all Filipinos. The use and delivery of financial and banking services through digital means can improve efficiency by lowering costs; increasing convenience, speed, and transparency; and more customer-centric and responsive financial solutions for the unserved and underserved market segments.

The BSP launched its three-year Digital Payments Transformation Roadmap in October 2020, charting its key strategic initiatives toward digitalization. The Roadmap aims to promote payments digitization that is strategically geared toward building an inclusive, safe, and stable financial ecosystem that supports the diverse needs of Filipinos. Under the Roadmap, the BSP is pursuing the two-fold goals of converting at least 50 percent of the retail transactions volume to digital, and at least 70 percent of adult Filipinos owning and using transaction accounts by 2023.

The BSP's efforts to achieving the payments digitalization and financial inclusion targets under the Roadmap continue to gain traction. The country's share of digital payments to total retail transactions volume rose significantly to 30.3 percent in 2021 from 20.1 percent in 2020.² Similarly, the account ownership of Filipino adults almost doubled to 56 percent in 2021 from 29 percent in 2019.³ Tapping on this momentum, the BSP continues to lead key initiatives toward broadening the scope, scale, and reach of digital financial services. Through these efforts, the BSP aims to empower consumers, businesses, and the financial sector in their digital transition by enabling digital customer onboarding and the delivery of innovative financial services as well as creating compelling large-scale digital payments use cases.

Digital customer onboarding

As chair of the Philippine Identification System (PhilSys) Inter-Agency Committee on Use Cases and Authentication, the BSP provides continued support to the roll-out of PhilSys or the National ID. The use of the Philippine Identification (PhilID) enables Filipinos to gain access to a bank or e-money account as it addresses the challenge of presenting proper identification for opening a transaction account. The PhilSys can also be leveraged to improve the registration of and payment to social welfare and cash assistance beneficiaries.

The BSP through the Financial Inclusion Steering Committee has engaged the Executive Branch for support with the issuance of Executive Order No. 162⁴ and Memorandum Circular No. 95 on the recognition and acceptance of the PhilID for government transactions. The BSP has likewise issued Memorandum Nos. 2021-035, 2021-057, and 2022-044, reminding its supervised financial institutions to accept the PhilID and its components as sufficient proof of identity. To further institutionalize the acceptance of the PhilID in facilitating account opening or establishing relationship, the BSP issued Circular No. 1170, which provides enhanced guidelines on the conduct of customer due diligence using the digital identity system.

BSP 2020-2023. Digital **Payments** Transformation Roadmap https://www.bsp.gov.ph/Media_And_Research/Primers%20Faqs/Digital%20Payments%20Transformation0Roadmap%20Report.pdf Digital Payments Breach 30 Percent in 2021 (6 July 2022). https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6356 2022). than 50% of Filipinos Now Own Financial Transaction Account August а https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6416 EO Use (26 of National ID Private Transactions February 2022). Supports https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6175

Innovative financial services delivery

The BSP continues to foster an enabling policy environment that allows for the introduction of new and emerging business models as well as delivery of innovative financial products and services, while ensuring that related threats and risks are properly identified and managed. The following key policy issuances of the BSP aim to catalyze responsible innovation in digital financial services:

- Circular No. 1105 or the Guidelines on the Establishment of Digital Banks introduced digital banks as a distinct classification of banks. Digital banks are seen as among the country's essential enablers in accelerating digital transformation and financial inclusion as they offer fully digital and innovative products mainly targeting the unbanked and underserved population. After the release of the digital banking framework, the BSP issued Circular No. 1154 which primarily sets out the supervisory expectations regarding corporate and risk governance of digital banks, as well as the applicable prudential requirements including, among others, on capital, leverage, liquidity, and operations commensurate to their business model and risk profile.
- Circular No. 1122 or the Open Finance Framework promotes consent-driven data portability, interoperability, and enables coordination and collaboration among financial institutions and fintech players as they are held to the same standards on data privacy and security. This is seen to bring greater value for consumers and business as it facilitates access to a broader array of financial products and services tailored to their needs and goals.
- Circular No. 1153 or the Regulatory Sandbox Framework institutionalized the BSP's "test and learn" approach to encourage competitive and responsible innovation. The framework underscores that the introduction of new business models and technologies should be complemented by sound risk management and ensure compliance with relevant laws and regulations.

Digital payments use cases

Following the successful adoption of QR Ph P2P, the QR Ph P2M was rolled out in October 2021. This convenient online payment facility extended the use of QR Ph from person-to-person (P2P) transfers to person-to-merchant (P2M) payments through the InstaPay rail. This allowed for interoperable digital payments to merchants, including micro, small and medium enterprises, despite their customers having accounts maintained in different payment service providers (PSPs).⁵

Capitalizing on the QR Ph initiative, the Paleng-QR Ph Plus program was launched to onboard market vendors and tricycle drivers to transaction accounts and enable them to accept cashless payments via the QR Ph facility. As of end-April 2023, the Paleng-QR Ph Plus Program has already been implemented in 14 local government units (LGUs) nationwide.

In November 2022, the BSP launched the Bills Pay PH aimed at transforming the country's fragmented online bills payment facilities into a wide interoperable bill payment network. This digital payment facility enables customers to pay billers even if the latter has no existing arrangement with the customer's PSP. The interoperable facility provides Filipinos not only with greater convenience but also a more economical way of settlement for recurring bills and other periodic financial obligations as use of the facility is free of charge.⁶

FAQs on QR Ph Person-to-Merchant Payments (P2M), https://www.bsp.gov.ph/Media_and_Research/Primers%20Faqs/OR_Ph_P2M_FAQs.pdf
 Bills Pay PH Frequently Asked Questions (FAQs),
 https://www.bsp.gov.ph/Media_and_Research/Primers%20Faqs/Bills_Pay_PH-

G. Green initiatives of BSP regional offices or branches

In line with its mandate on currency management, the BSP's regional offices and branches are tasked to oversee and ensure timely and adequate currency distribution in their respective areas of responsibility. They handle the retirement of unfit currency banknotes and coins the promotion of proactive partnerships with authorized agent banks (AABs), government agencies, and private institutions within their assigned area to attain common goals and objectives.

On top of the BSP-wide standard policies on waste management (i.e., waste segregation, proper disposal of waste, among others), the regional offices and branches likewise implement the following strategies and measures to reduce negative environmental impacts:

1. Currency recirculation

The BSP actively promotes fit currency recirculation to minimize the need to produce new currency and unnecessary currency verification processing, which also aims to contribute positively to the environment.

In 2020, the BSP launched the Cash Service Alliance (CSA) to enable all banks to enter into a mutually beneficial agreement to service requirements for fit Philippine currency of other banks from their available currency holdings. mechanism promotes and facilitates efficient recirculation of fit Philippine currency to support economic transactions. Moreover, this strengthens cooperation among banks and reinforces their vital role in currency circulation management.

In 2022, the CSA was able to facilitate a total of 930 matched transactions

for banknote and coin requirements amounting to ₱297.3 billion, which represents around 57 percent of the total amount of fit banknote and coin holdings of AABs. The amount of ₱297.3 billion should have been deposited to the BSP but was recirculated instead. In addition, around 37 percent of the total amount of fit banknote and coin requirements of AABs, which should have been withdrawn from the BSP, were sourced through the CSA.

The above recirculation of currency resulted in lower use of chemicals and energy/fuel-consuming machines for the production, processing, and hauling of currency.

2. Retired currency disposal

It is the BSP's role and obligation to implement measures to withdraw from circulation all unfit currency and replace them with new and clean banknotes and coins. The BSP performs currency retirement and disposal activities aligned with its effort to promote environmental sustainability while implementing its functions to deface coins and shred banknotes promptly and properly prior to disposal.

The BSP regional offices and branches are responsible for the acceptance of manually verified²⁶ unfit banknotes and coins from the currency deposits of client AABs, including verified unfit coins. The BSP is also responsible for the acceptance of mutilated and counterfeit banknotes and coins surrendered by the public through its client AABs, subject to examination.

For banknotes that fall under the category of counterfeit, unfit, mutilated, and demonetized (CUMD), these undergo an offline shredding process²⁷ through a high-capacity

²⁶ Includes banknote rejects from automated banknote processing machines (ABPMs).

Mostly low-denominated banknotes, i.e., 20-, 50-, and 100-piso; and high denominated verified unfit

banknotes, i.e., 200-, 500-, and 1,000-piso, undergo online shredding thru the high-capacity ABPMs and subsequently briquetted using SEBS.

Currency Disintegration System which is then briquetted²⁸ using Shred Extraction Briquetting System (SEBS) to reduce harmful inhalation of shredded banknotes, among others.

For CUMD coins, the BSP uses a coin defacement machine prior to disposal to prevent the risk of recirculation and maintain the integrity of Philippine currency.

The disposal of briquetted unfit banknotes and defaced coins is done through public auction following BSP Disposal Standards.

Buyers of briquetted banknotes are required to submit an Environmental Compliance Certificate (ECC) issued by the DENR and to use briquetted banknotes only as an alternative fuel source for biomass gasification facility. The use of briquetted banknotes as an alternative fuel source instead of outright burning reduces the need to cut down trees, thereby contributing to a reduced carbon footprint. In 2022, the BSP regional office in Greater Manila generated а total 1.167.590.20 kilograms of briquetted that were banknotes properly disposed and re-used as an alternative fuel source.

Similarly, buyers of defaced coins are also required to submit ECC requirements. The BSP has defaced a total of 597 metric tons of CUMD coins since the start of the coin defacement operation in 2021.

Meanwhile, to avoid recurrence of accumulating high-volume coins for disposal, the BSP is diligently working on the defacement of newly received CUMD coins using the acquired Low-Capacity Coins Defacement Machine (LC-CDM) and timely disposal of defaced coins. The BSP has likewise entered into a contract with a service provider that will use the briquetted retired banknotes, banknotes securities waste, and other non-

briquetted security waste as alternative fuel for cement manufacturing, instead of using coal and other types of fuel fossils. This initiative contributes to ensuring a sustainable approach to the currency waste disposal of the BSP.

3. Work environment measurement assessment

To uphold the BSP's responsibilities for providing not only quality service to the public but also a responsive and safe operating environment for its employees, the BSP hired the services of an external service provider in 2022 conduct Work Environment Measurement (WEM) in the regional office in Greater Manila area, in compliance with Rule 1077 of the Occupational Safety and Health Standards (OSH Standards). The WEM activities include measurement or sampling and analysis of temperature, noise, ventilation, and concentration of substances, i.e., gases, fumes, metals, and biological hazards. Based on the WEM result, the BSP regional office passed majority of the tests conducted and corrective actions were undertaken for some criterion that failed during the assessment. On top of the conformance with the WEM procedures, all employees involved in cash operations were required to undergo hearing test and provided with adequate personal protective equipment or PPE.

With the launch of the 11-point SCB Strategy on 22 December 2022, the BSP regional offices and branches ensured its inclusion in their policies and programs for 2023. This also supports the DENR's mission to achieve a "climate-resilient and low-carbon economy through sustainable management of natural resources."

Some regional offices and branches instituted a committee on ESG to craft and implement policies promoting

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²⁸ For the Greater Manila Regional Office only.

environmental responsibility and sustainability.

The BSP regional offices and branches have also been implementing resource-saving measures and initiatives supporting the 11-point SCB Strategy. These include:

- a. Compliance with energy conservation measures through the prudent usage of office appliances and devices;
- b. Streamlining of processes to reduce the usage of office supplies through the digitalization of records, among others:
- c. Encouraging the use of digital feedback mechanisms (e.g., e-kiosk, online FMS) and complaints mechanisms (e.g., BOB, email) to avoid excessive use of paper;
- d. Encouraging the usage of digital payments in internal transactions;
- e. Adoption of environment-friendly practices to promote environmental

- awareness and reduce the carbon footprint of the organization;
- f. Encouraging the recycling of office materials for internal transactions
- g. Banning of single-use plastics and "sando" bags; and
- h. Roll-out of the 5S program to reduce office clutter and promote the mindful use of resources.

As part of the 11-point SCB Strategy, the regional offices and branches will continue to improve the environmental sustainability programs of the BSP in the countryside.

These initiatives and moving forward plans allow the BSP to fully deliver on its mandate to withdraw unfit currency in circulation and to replace them with clean and new currency, while maintaining its commitment to foster environment sustainability.









III. Bangko Sentral national and global engagements

The BSP aims to be an internationally recognized central bank that advocates green and sustainable policies and practices. The 11-point SCB Strategy also recognizes the different levels of engagement of the BSP-as a central monetary authority, as a financial sector supervisor, and as an institution that is of the government part svstem. Leveraging from these engagements, the aims to contribute development of the green or sustainable finance market in the country.

The BSP initiatives are guided by its active participation in global and conversations on the promotion of sustainable finance and contribution to supporting climate actions and the Sustainable Development Goals (SDGs). These dialogues serve as a platform to jointly discuss best practices and share collective experience including opportunities and challenges in scaling up sustainable finance.

Global engagements

The pursued BSP initially sustainability journey as an advocacy. It started building awareness on ESRM membership through its in the Sustainable Banking and Network (SBFN), a knowledge and capacity-building platform for financial regulators and banking associations, in 2013.

The BSP, in partnership with the International Finance Corporation, carried out a scoping study to gain understanding on how to best embed environmental and social factors, and sustainable finance principles into the decision-making business and of financial management systems institutions. The research is aimed at identifying, among others, the barriers to banks' adoption of ESRM, as well as areas for which regulators can provide guidance and capacity development support toward implementing sustainable finance practices. Results of the study showed that there is moderate awareness among banks and very limited experience in the management of environmental and social risks.

Building on the learnings gained from the SBFN and developments in the global landscape on sustainable finance, the BSP started to take concrete actions in integrating sustainability principles in its corporate strategy in 2019 as well as in the financial system through the issuance of enabling guidelines for banks starting April 2020.

The BSP also became a plenary member of the NGFS in July 2020. It likewise participated in various workstreams of the NGFS: on Supervision, Monetary policy, Scenario design and analysis, and Net zero for central banks, and Task Force for Nature- related Risks.

The BSP is also part of interest and working groups on green or sustainable finance created under the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP-WGBS) and the Alliance for Financial Inclusion.

The BSP also participated in regional initiatives promoting sustainable finance. It was a member of the ASEAN Senior Level Committee (SLC)'s Task Force (TF) on the Roles of ASEAN Central Banks in Managing Climate and Environment-Related Risks, which conducted a study on the roles of central banks in addressing climate and environment-related risks to monetary, financial. and broader macroeconomic stability. It continued to participate in the sustainability-related initiatives of the ASEAN through

participation in the (A) SLC-TF on Sustainable Finance, and (B) ASEAN Taxonomy Board's Working Group 1 on Conceptual Framework and Principles.

Local engagements

On the local stage, the BSP actively participates in the Inter-Agency TWG for Sustainable Finance, or the Green Force. This inter-agency group is tasked to identify a pipeline of sustainable projects or investments, mobilize various sources of public and private financing, including review of existing policies or development of new ones to accelerate sustainable financing, and harmonize and coordinate policies and projects across all government agencies, among others.

The Green Force launched the Philippine Sustainable Finance Roadmap (Roadmap) and the Sustainable Finance Guiding Principles (Guiding Principles) in October 2021.

The Roadmap provides high-level recommendations under the Policy, Financing, and Investment Pillars toward the development of sustainable finance in the country. The Guiding Principles have

been developed to establish a common understanding among various stakeholders of the economic activities in the Philippines that can be considered sustainable, with a focus on addressing the impacts of climate change. The quiding principles are as follows: (A) and climate change mitigation adaptation, (B) promoting transition to a low-carbon economy, (C) resilient food systems, (D) sustainable cities, sustainable and resilient infrastructure for inclusive growth and poverty reduction, (F) environmental management and conservation, and (G) prohibited activities.

To operationalize the Roadmap, working clusters were created within the Green Force. The Working Cluster Financial Ecosystem Sustainable comprised of the member agencies of the FSF.²⁹ A TWG on Sustainable Finance was convened within the FSF to handle the policy review or development of new quidelines or standards on sustainable finance covering the areas of corporate governance, risk management, disclosure requirement, **ESG** products, sustainable finance taxonomy. This is to ensure the alignment of sustainabilityrelated policies in the financial sector.

(PDIC). It provides a platform for discussion of supervisory approaches and issues as well as emerging risks in the financial sector.

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²⁹ The FSF is a voluntary inter-agency body comprised of the BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC), and the Philippine Deposit Insurance Corporation

Box Article 4: Identification and assessment of vulnerabilities of BSP offices to climate and environmental hazards

The SCB TWG on Vulnerability Assessment conducted two types of assessments on the vulnerability of BSP offices and branches to environmental and climate-related hazards.

On the first assessment, the TWG conducted a broad survey of the exposures of the 24 BSP sites (the BSP Head Office, the BSP Security Plant Complex, the BSP Wellness and Training Center, and the BSP regional offices and branches) to natural hazards and extreme weather events (e.g., earthquake, severe wind, flooding, tsunami, liquefaction, storm surge, landslides, and volcanic eruptions). These natural hazards and weather events are based on information available in Hazardhunter.ph and Project Noah, as well as historical information on the occurrence of the specific hazards in the Philippines and incident reports or studies based on first-hand experience of the BSP regional offices and branches.

The second assessment involved an in-depth assessment of the potential impact of the most common hazards (i.e., earthquakes, severe wind, and flooding) to the BSP in terms of (A) financial losses from damages to BSP facilities; and (B) potential disruption in the delivery of business objectives and mandates.

The results of the study identified the BSP sites most exposed to natural hazards. The study also identified the BSP sites most vulnerable to earthquakes, severe wind, and flooding, as well as the extent of potential impact of these hazards on the delivery of business objectives and the financial cost to the BSP to cover resulting damages. The study also provided insights on the adequacy of the BSP's risk-mitigating measures (e.g., insurance and selfinsurance coverages) to cover the potential costs arising from damages brought about by the three most common hazards.

Given the results of the study, a list of recommendations were identified particularly on the following areas: (A) improving the resilience of BSP facilities to better withstand the challenges brought about by natural hazards; (B) enhancing emergency response systems and business continuity strategies to reduce business disruptions to the extent possible; (C) establishment of controls and practices that ensure the availability of sufficient buffers to cover financial losses; and (D) opportunities to further improve some aspects of this study for future vulnerability assessments.

IV. Next steps to climate action

For 2023 onwards, the BSP will focus on completing the 11 action points and related initiatives under the SCB Strategy, including the implementation of the earlier issued sustainability-related quidelines.

Enabler's catalytic role

Completion of climate stress testing and issuance of related guidelines. The BSP intends to complete the climate stress testing in collaboration with the WB in 2023. This activity may be expanded to other environment-related exposures such as biodiversity loss. Building on this exercise, the BSP will provide detailed guidelines for banks in conducting the same using their own data. The exercise will also inform the enhancement of prudential submitted by banks to capture identified relevant for surveillance aggregate exposures of the banking climate and other system to environment-related risks.

Enhancements to disclosure requirements. To ensure harmonized sustainability reporting requirements across the Philippine financial sector, the FSF member agencies are reviewing their respective disclosure requirements relating to sustainable finance or sustainability, taking into account the finalization of the sustainability-related disclosures to be released by the International Sustainability Standards Board (ISSB). The BSP will update its existing disclosure requirements sustainable finance, considering the results of the review of the FSF and the adoption of the Philippine Financial and Sustainability Reporting Standards Council of the ISSB standards.

Potential regulatory incentives. In addition to the existing regulations that already incentivize banks to finance green or sustainable projects, the BSP is

looking at other potential regulatory incentives that may be granted to banks to promote green lending, such as the use of preferential rediscount rates or provision for higher loan values related to its rediscounting facility. The BSP is also reviewing the single borrower's limit (SBL) regulations to promote lending to social and green projects under the Sustainable Finance Framework of the NG, among others.

Development of sustainable finance taxonomy. The BSP also recognizes the importance of a taxonomy as this will facilitate further inflows of investments toward green or sustainable projects.

The BSP, SEC, and IC under the auspices of the FSF, representing the working cluster on Sustainable Financial Ecosystem of the Green Force. is developing the sustainable finance taxonomy guidelines, with the support of the WB. This taxonomy will build on the Philippine Sustainable Finance Guiding Principles, the country's nationally determined contributions, and ASEAN taxonomy. The development follows an iterative process focusing initially on climate change mitigation and adaptation. The taxonomy will later cover other environmental and social aspects.

Mobilizer's influence

The BSP chairs the Philippine Financial Inclusion Steering Committee (FISC). The green finance element can be integrated into the financial inclusion policies and initiatives of the BSP to empower vulnerable groups to enhance their climate resilience and address climate and E&S risks. The BSP will continue to study how it can best help promote inclusive green finance. This work will also involve an analysis of how digital solutions can enhance inclusive green finance.

The vulnerable groups—particularly the micro, small, and medium enterprises (MSMEs)-play an important role in transitioning to а resilient environmentally sustainable economy. In this regard, the BSP, through the FISC, will implement awareness-raising capacity-building initiatives for vulnerable groups, including discussions on climate change mitigation and adaptation-related challenges. This will guide further development of marketshaping policies (e.g., greening the MSMEs) in addition to the sustainabilityrelated guidelines issued and incentive measure on agriculture and rural development implemented by the BSP.

The BSP will also enhance its branch-level prudential reporting to gather more granular data that could be used to understand the loan profile of banks per province and region as well as assess the vulnerability of the banking system to climate physical risks and natural hazards.

Doer's adherence

The BSP will continue to enhance the earlier implemented green initiatives in its own offices and facilities and operations.

To ensure effective implementation and monitor progress in the emission reduction initiative, the BSP will explore emissions measurement methodologies to facilitate the targeting, calculating, and monitoring of the Bank's GHG emissions, formulate climate targets, and enhance its compliance program to incorporate this objective and targets.

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Launch of the 11point SCB Strategy



























